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CALIFORNIA RESTAURANT OPERATIONS

1985

Laventhol & Horwath
Certified Public Accountants

1986 Edition

11TH ANNUAL REPORT ON RESTAURANT OPERATIONS IN CALIFORNIA

CALIFORNIA RESTAURANT OPERATIONS

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COMMENTS FROM AROUND THE STATE

From Los Angeles

The general economic growth in Southern California is being paralleled by the growth in the number of highly diversified eating establishments. Restaurateurs are taking advantage of the widespread retail center development as locations for their smaller foodservice units. First-time operators are attracted by the low-capital investment requirement, while the experienced chain operators envision the retail center as a less expensive means to expand their market base. The common goal for these smaller operations is to produce a specific product for a specific market.

Realizing the competitive environment of the Southern California foodservice industry, the larger, more established operations are forced to change their market orientation or product mix, or both. Recent trends include menu diversification, unit spinoff and new concept development.

In an attempt to please the market's insatiable desire for unique cuisines, many restaurateurs have freed themselves from the confines of traditional menu items associated with various ethnic restaurants. Typical French cuisine is now being blended with an Oriental flair, "American Cuisine" restaurants exhibit Mexican, Italian, Oriental and Creole selections along with the standard hamburger and club sandwich fare, and one Chinese restaurant in particular has successfully blended Northern Italian cuisine with traditional Far East preparations. The new menu items of these restaurants conform to the lighter fare being sought by most diners and add to the excitement of dining out in Southern California.

The popularity of grazing and lighter fare has created an opportunity for operators of more traditional restaurants to appeal to different market segments. In addition to menu diversification, they are accomplishing this by opening a spinoff unit usually in another geographic market. The new operation is given a unique name and identity but does benefit from the economies of scale associated with consolidated purchasing, maintenance and management efforts.

By maintaining both restaurants, the operators are able to expand their market base and effectively compete with the new trendy restaurants in the area.

In addition to market segmentation/menu diversification, another trend is the development of new concepts in the physical appearance and technology of the food service establishment.

Ironically, the diner concept of the 1950s is back in vogue. Along with the lighter fare, the return of the nostalgia setting affords the consumer a less pretentious atmosphere, a lower average check and more flexibility in the selection and quantity of food ordered.

Although the style may be 30 years old, the equipment driving the operation is the most sophisticated state-of-the-art technology. Everything from computerized point-of-sale units to wine preservation systems allows these new restaurants flexibility in their service/product orientation, yet still monitor, control and account for all sales and costs.

The foodservice industry in Southern California continues to show strong growth and diversity and should continue to be among the trend setters in the national restaurant scene.

Janet Lowder
David Balk
Los Angeles

From Orange County

Restaurateurs in Orange County experienced another favorable year as a result of the strong economic growth of the county as a whole. As one of the fastest-growing counties in the United States, Orange County experienced unprecedented growth in office, hotel and residential development.

Costa Mesa and Irvine, for example, have witnessed new restaurant development within several mixed-use projects. Several other cities have seen growth in the number of restaurants located within regional shopping malls. Historically, Orange County has maintained more than its fair share of national restaurant franchises, which have viewed the county as a test market area for innovative restaurant concepts.

A few concepts that showed growth in 1985 are fine dining rooms in hotels, gourmet hamburgers, spicy and flame-broiled chicken and full-service delicatessens.

Orange County restaurants should continue to experience growth in the future, paralleling the projected growth in commerical, retail and residential development.

Boyd Lypka
David R. Kinkade
Costa Mesa

From San Diego

The San Diego restaurant industry experienced strong growth in 1985 as indicated by the large increase in the number of permits issued by the Health Department compared with 1984. While some area restaurateurs have felt the increased competition, overall taxable sales per restaurant reported to the state increased approximately 16 percent in 1985 compared with a 6 percent increase in 1984. This increase suggests support for restaurant development as a result of strong growth in population, commercial development and employment throughout San Diego County.

San Diego eating trends continue to center around the availability of fresh seafood and the patron's desire for fresh ingredients prepared creatively. The increasing number of restaurants that offer as many as 10 fresh catches of the day have found more than half of their guests ordering from this list, despite a large selection of other menu items. Additionally, Cajun-style dishes have slowly gained popularity during the year.

Although reduced liquor consumption has reduced beverage profits, San Diego restaurants have minimized this by improving their merchandising of wines from well-known California vineyards. Restaurants offering several quality wines by the glass are the norm, since many San Diegans now expect this.

The restaurant business in downtown San Diego has experienced a dramatic change during 1985. With the opening of Horton Plaza, an upscale 800,000-square-foot retail center, and the absorption of two new condominium developments, Marina Park and Park Row, downtown restaurants are becoming less vulnerable to special cultural events that have attracted people downtown at night and on weekends. These restaurants have reported a strong increase in both weekday and weekend dinner sales, and this trend is expected to continue as more residential developments are completed in the downtown area.

The continued growth in population, income, commercial development and tourism projected for 1986 suggests another healthy year for San Diego restaurants.

Lewis A. Weinger
San Diego

From San Francisco

It is interesting to note that California, which is home to today's food trend setters, is the same state that gave birth to the fast-food chain concept more than 30 years ago. Nowhere can you see this continuing phenomenon better than in San Francisco and the Bay Area, where "California Cuisine" is touted with a flair. This is not only at the high-end, but at places like the original grill restaurants—where you can still eat at the counter. San Francisco, a gateway to the Pacific, also offers the international cuisines of China, Japan, Korea, Vietnam, Thailand, the Philippines and Polynesia. In addition, the strong Latin influence in California is evidenced by the significant number of Mexican restaurants all over the state, as well as San Francisco.

The average Bay Area resident spent more than $650 eating in restaurants last year—nearly twice what the average American spent. With 1.5 million people, metropolitan San Francisco reported restaurant sales of $1.1 billion in 1984, and all indications point to an increase in this number in 1985.

These statistics were somewhat frustrating to many independent operators, who actually reported significant decreases in sales volumes. This could be attributed to several factors:

- An influx of new, trendy restaurants, which have diluted demand.
- Reaction to new drunk driving laws, which have impacted beverage sales negatively.
- Threat of new tax laws that many exclude business meals from normal deductions.

Many new types of restaurants and some creative concepts have entered the marketplace, the most successful of which is the old-time diner. At least three have popped up around the city, boasting stainless steel and neon trim or authentic juke boxes. These additions to the city's already staggering number of restaurants (4,000+) have fared very well. The menus typically include large portions of deli meats, barbecue and mesquite-grilled meats, fish and fowl. New wave diners, according to *Nation's Restaurant News*, are grossing anywhere from $2 million to $4 million per year.

The emphasis on health foods appears to have staying power. However, some restaurant developers have attempted to introduce healthy fast food concepts with rather disappointing results. As much as Californians like to consider themselves health conscious, they desire an alternative to salads and sprouts and, as a result, are not visiting these concepts as often as was predicted.

A continuing trend from last year, shops catering to people's sweet tooth have done very well. San Franciscans have patronized the new gelato, frozen yogurt and cookie shops equally as much as the famed salad bars.

The emphasis on drunk driving laws and potential server liability seems to have had a negative impact on the sales of hard liquor at many restaurants. Many restaurateurs have been promoting special fruit, ice cream or coffee drinks—some alcoholic, some not—to offset diminished hard liquor sales. Other operators think the new consumer preference of wine versus hard liquor has resulted in higher beverage costs, not a decrease in sales volume since profit margins are lower for wine.

San Francisco is proud to be the home of the new Food Service Trade Center. The first facility of its kind, it was created to bring food service operators together with product and service suppliers. This multifaceted resource and marketing center should help San Francisco maintain its reputation as one of the world's greatest food service markets.

San Francisco will host the Western Restaurant Convention and Exposition this year, sponsored by the California Restaurant Association.

San Francisco's growing work force as well as continuing commercial, retail and lodging developments promise an increase in dining out trends. We look forward to another challenging year for restaurant operators.

Susan Kennedy
San Francisco

UNDERSTANDING MEDIANS & MEANS

The annual studies written by the Research Division of Laventhol & Horwath utilize medians for the majority of their reported results. This article will give an in-depth explanation on medians and quartiles, as well as briefly discussing means, along with practical uses of both.

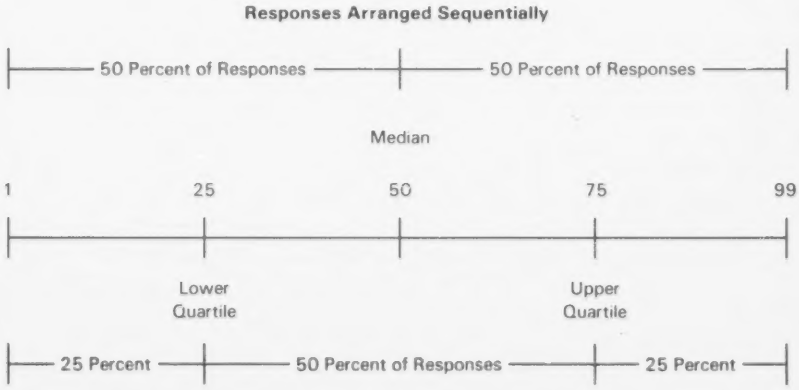
A median is defined as the middle value of all amounts calculated for a specific line item. For example, if we received nine responses for number of full time employees—8,4,2,6,9,7,5,1,3; these numbers would be arranged sequentially—1,2,3,4,5,6,7,8,9 and the middle value "5" would be the median since 50 percent of the responses received are below the value and 50 percent are above.

In conjunction with medians, lower and upper quartiles are used to give a further description to the sample results. Occasionally, we use means to report data, but we believe the median is the most appropriate method to report our results. This is because the median gives less biased results. Medians keep results from being skewed by one or two respondents. For example, if a few responding restaurants incurred large operating losses, these losses would be divided evenly among all restaurants in the sample (when using mean calculations); and bring down the average net profit of the entire group, which for the most part may have had respectable profits.

Quartiles divide the responses into four equal parts, with the median still being the middle value. The *lower quartile* is the value that separates the lowest 25 percent of the responses from the rest of the sample when arranged sequentially, while the *upper quartile* defines the boundaries of the upper 25 percent of the responses from the lower 75 percent. Stated another way, 50 percent of all responses fall between the lower and upper quartiles. For example, if we receive 99 responses for a specific item and the responses (conveniently) were numbered 1 through 99, the median (or middle value) would be 50, the lower quartile would be 25 (25 percent of the responses would be below 25), and the upper quartile would be 75 (25 percent of the responses would be above 75). Fifty percent (or half) of the responses would fall between the lower and upper quartiles. (See chart below.)

While reading this report, it should become evident that columns do not total when medians are involved. The reason behind this is EACH LINE ITEM IS ANALYZED SEPARATELY! In the accompanying table (page 6) when all amounts are arranged sequentially, the median total sales figure as an amount per seat for profitable restaurants was $4,599. This figure is based on the 431 restaurants* that gave us information for this specific line item. The median net profit amounts per seat for total food and beverage sales were $3,700 and $1,112 respectively. These two amounts were analyzed on a sample of 400 restaurants that gave us separate food sales and beverage sales figures (31 restaurants provided us with only the total for food and beverage sales, not separate food and beverage sales figures). Different sample sizes is one reason why figures do not add to the totals shown.

There is another major reason that columns do not total. When using medians, it is important to remember that the median food sales, the median beverage sales and the median total sales figures reported probably represent the results for three separate restaurants, even though the sample size of each may be equal. This also holds true for lower and upper quartile figures.



UNDERSTANDING MEDIANS AND MEANS
(continued)

Table I

	Amount Per Seat		
	Net Profit		
	Lower Quartile	Median	Upper Quartile
Sales			
Food	$2,196	$3,700	$5,442
Beverage	527	1,112	1,747
Total Sales	2,863	4,599	7,030
Cost of Sales			
Food	786	1,469	2,258
Beverage	146	276	479
Total Cost of Sales	982	1,741	2,686
Gross Profit	1,877	2,920	4,460
Other Income	11	31	82
Total Income	1,953	2,957	4,517

Table II
Restaurant Seating

Restaurant	Number of Seats	Average Daily Seat Turnover	Number Seats Occupied Daily (Column 1 × Column 2)
1	60	3.80	228
2	80	4.20	336
3	100	3.70	370
4	120	2.90	348
5	140	2.00	280
6	160	1.70	272
7	180	1.90	342
8	500	1.20	600
9	600	1.00	600
Total	1,940	22.40	3,376
Median	140	2.00	342[1]
Average (rounded)	216	2.49	538

[1]The median number of seats occupied daily is 342 (the middle value of column 3). Notice that this is not equal to the product of the median number of seats multiplied by the median average daily seat turnover, which is 280. It is incorrect to use medians in calculations, such as addition on multiplication.

The terms MEAN, AVERAGE, and ARITHMETIC MEAN are all synonymous. A mean is calculated by summing the results and dividing by the number of responses. In Table II, the sum of the number of restaurant seats is 1,940. Divide this by the nine respondents and the mean (average) is 216 seats per restaurant. By comparison, the median number of seats is 140. It is obvious that the average is skewed by the two restaurants with 500 and 600 seats.

Table II is a group of restaurants that responded to number of seats available. They also provided the number of guests served, so the average daily seat turnover was calculated. The average number of seats for this sample is approximately 216 (1,940 divided by 9) and the median number of seats is 140 (the middle value of all respondents when responses are arranged sequentially). The average seat turnover is 2.49 and the median is 2.00. With this information, the mean and median for the number of seats occupied daily can be calculated.

- The median number of seats occupied daily is 342 (the middle value of column 3).
- To compute the average number of seats occupied per day, multiply the average number of seats per restaurant of 216 by the average daily seat turnover of 2.49. This gives the average daily seat turnover of approximately 538. The mean number of seats is greatly influenced by the two large properties with 500 and 600 seats.

As shown, median and means both have their uses, with medians not being affected by one or two responses that vary significantly from the rest of the sample. This is the main reason the majority of our studies report the data as medians.

**The number used for sample sizes are representative and are not actual sample sizes.*

MEETING TODAY'S CHALLENGES

by Elizabeth Ann Rifkin
Research Division
Philadelphia, Pennsylvania

A decline in beverage sales, and ultimately profits, is a continuing problem for restaurant operators. This decline may be partially due to the public's increased concerns with health, safety and nutrition. Research conducted by Laventhol & Horwath shows that beverage revenue as a ratio to total sales has fallen in 1985 compared with last year. Earlier in 1984 beverage revenue was 25 percent of total sales. In 1985, this figure slipped to 22.9 percent (these figures are taken from *Restaurant Industry Operations Report* for the past two years).

Since beverage sales generally have a higher profit margin than food sales, this change in the revenue mix can be costly for restaurants. This article discusses the varied ways to both expand revenue and recapture any losses in beverage sales, thereby making a significant contribution to the bottom line.

Restaurants can make changes in their operations in order to respond to consumer demands. Due to increasingly strict drinking and driving laws and national publicity-awareness campaigns, consumers are more aware of the dangers of driving while intoxicated. The public is also becoming more conscious of personal nutrition, health and safety. Eliminating the calories that alcohol consumption provides is also a concern associated with the fitness craze of the 1980s. All of these concerns have contributed in some way to the decrease in alcoholic beverage sales.

Restaurants can change the attitudes of their customers by associating eating with drinking. Standard 'all you can drink' or 'two-for-one' promotions could be altered by offering free food with beverages, replacing the alcohol-only specials. In doing so, fewer patrons should become intoxicated and potential problems—in the restaurant or behind the wheel—may be avoided.

Given the changes in consumer tastes and composition of sales, restaurant operators have already made many changes in an attempt to maintain and expand revenue and profit. The biggest challenge faced by the restaurateur is making a patron feel comfortable. If customers feel comfortable they are more likely to frequent the establishment, thus spend more money on food and drink. Possible methods that can be used to create the desired effect include offering a nonsmoking section, arranging furniture to cater to different sized groups and providing a variety of entertainment instead of only music. Some innovators have tried music videos, comedians or other live entertainers, and audience participation events such as wine- or beer-tasting nights. Some also have theme nights for the slower business periods, advertising that only 50's and 60's music will be played or that the cuisine will feature Italian, Spanish or Mexican. Theme nights can be enhanced by inviting patrons to dress in appropriate costumes and then awarding prizes to the best dressed. These prizes need not be expensive—a free meal or free munchies will usually provide enough incentive.

Offering a large selection of nonalcoholic beverages has become an important factor in today's market. Simply offering customers a variety of sodas reduces potential beverage sales. Sparkling waters, wine coolers, mocktails, fruit juices and a variety of coffee and tea should be available to those who do not wish an alcoholic beverage, particularly the "designated driver" of a group (that person who has agreed not to imbibe that evening). Some establishments offer free beverages to the designated driver in an attempt to increase clientele.

For those who do not drink alcohol, these beverages can provide added incentives for return visits; and for the restaurant operator, the profit margin on a mocktail compares favorably to that of a cocktail.

Offering a wide variety of munchies and desserts may also help increase revenue. Since grazing—eating an appetizer or two, soup, salad and a dessert—has become more popular than full-course meals, consumers prefer a restaurant that offers a full array of possibilities. This also encourages larger groups, as it is easier to please a group of customers with a large selection.

Restaurants can offer specials to attract clientele during slow periods. Early-bird specials and Sunday brunches are the most popular examples. As a last resort, one could consider the drastic options of renovation or a name change.

By now, it should be evident that there is a variety of ways to generate additional revenue that may be lost from declining alcoholic beverage sales.

Restaurant owners and operators can also take advantage of changing demographic characteristics. For example, women now comprise a larger portion of the work force. Female business travelers prefer to eat and drink in a different atmosphere than men. Women-at-work also means more meals out of the home or take-out meals for the family. Catering to this growing segment could result in new sales from repeat visits and referrals.

Another segment of the population that restaurateurs could concentrate on is the over-55 age group, the largest growing population segment. They have fewer financial responsibilities and therefore more disposable income. This group requires places where they can socialize and be entertained. The operation that still caters primarily to the younger generation will not tap the billions of dollars this group has to spend. It is clear, then, that restaurant operators may want to rethink which segment of the population to focus on since many segments can provide plenty of revenue and profit potential.

The main objective is to keep up with the times, whether it entails enhancing the menu or investing in renovations. With the careful planning and implementation of these changes, the benefits will more than outweigh any expenses incurred.

CALIFORNIA RESTAURANT INDUSTRY—1986

by Elizabeth Ann Rifkin
Research Division
Philadelphia, Pennsylvania

Introduction

A large cross section of restaurants participated in this eleventh edition of *California Restaurant Operations 1986*. One hundred and forty-two operators sent financial as well as general information on their establishments for inclusion in this year's report. Total sales for these restaurants exceeded $223.7 million, with beverage sales accounting for almost $47 million.

This year's report contains minor changes over the previous one, the result of a modified questionnaire. Included this year are data on training costs, the number of W-2 forms sent out by restaurants and restaurant location (such as in a hotel, shopping center or office building). The biggest change to this year's questionnaire, however, was the request for financial information for two years—1984 and 1985. We received 93 of the 142 questionnaires with two years' information and, as a result, a comparison section is included after the main report.

We have again included total U.S. figures for comparative purposes. These total figures are taken from the respondents to *Restaurant Industry Operations Report 1986*. The total U.S. figures are a combination of food only and food and beverage operations. This should give California restaurant operators a better view of the overall restaurant market.

Bases of analysis

The majority of figures presented in this report are medians, with some exhibits also providing the lower and upper quartiles. A median is the middle value of all responses that have been arranged sequentially. The median is reported to alleviate any bias that a restaurant with extremely high or low operating results may bring into the sample.

Many of the exhibits are presented as amounts per seat or percentages to total sales, which are the two most commonly used measurements in the foodservice industry. Food cost and beverage cost, however, are reported as a percentage of their respective sales.

The figures in this report are intended to be used as guidelines, not as standards or goals. They are not an attempt by Laventhol & Horwath to set or conform prices or operating ratios for the industry.

Operating results

The majority of participating restaurants in this study are more than 10 years old, located in an urban area and the sole occupants of their buildings.

The respondents to this year's study had an average check of $10.29, which is somewhat higher than the 1984 median of $9.72. The median average seat turnover also rose in 1985 to 1.78, compared with the 1984 sample of 1.72. These figures are higher than the total U.S. figures (refer to Exhibits 2 and 3 for further detail.) Consequently, sales per square foot also increased in 1985, to $258. Unfortunately, even with all the positive indicators, restaurant profit dropped 4.6 percentage points as a ratio to total sales for this year's respondents.

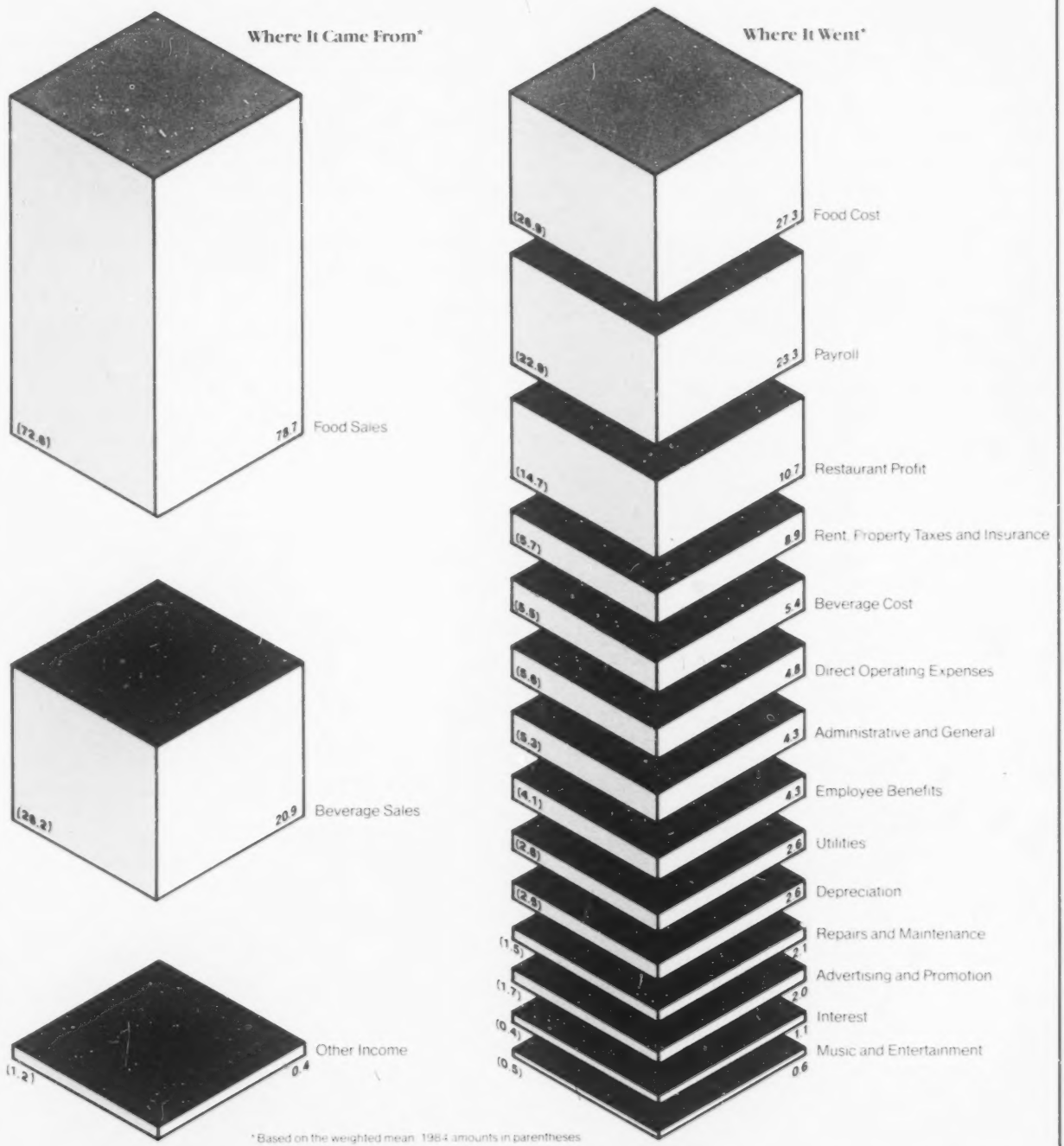
The median prime cost, which is the total of food, beverage and total payroll costs, is 66.6 cents for 1985, up almost 6 percentage points from the previous year. All three segments of the prime cost show increases in their medians for 1985, with beverage costs having the highest increase of five cents per every dollar in this year's sample.

The cross tabulations presented in Exhibits 10 through 13 provide a more detailed view of our respondents, enabling operators to make comparisons with operators having similar characteristics. For example, urban properties with total sales between $1 million and $2 million have a median restaurant profit of $723 per seat or 7 percent as a ratio to total sales. By comparison, the median restaurant profit for all urban properties in California is 6.5 percent, the same as for all properties with total sales between $1 million and $2 million.

The bar charts on pages 19 through 21 provide an overview of sales and cost of

Chart 1

The California Restaurant Industry Dollar



* Based on the weighted mean. 1984 amounts in parentheses

sales by amount per seat. These charts present these two measurements by selected criteria to allow easy comparisons. For example, Chart 6 depicts sales and cost of sales for operations that serve alcoholic beverages. Restaurants not serving alcoholic beverages have the highest median sales per seat and also the highest median seat turnover of 7.7 (Exhibit 3). Operators who served only beer and wine have the highest median restaurant profit as a ratio to total sales with 14.1 percent (Exhibit 18).

Exhibits 14 through 21 present the income statements for the various categories provided throughout this report. Exhibit 14 offers quartiles and medians for the entire California sample. Medians for the total U.S. sample are also provided for comparative purposes. Comparing this year's results with those in earlier reports may allow the reader to identify general trends such as increases in a controllable expense or a fixed charge.

Some highlights of this report include the following:

- The difference in profit between profitable and unprofitable operations is greater than 10 percent.
- Net profit operations have median expenses lower than net loss operations for all expenses except advertising and promotion, and repairs and maintenance. This appears to give credence to the adage "You have to spend money to make money."
- Property age has little or no influence on restaurant profit, while the type and menu theme does have some impact.
- Operations with sales greater than $2 million have the highest median controllable costs as a group and also the lowest restaurant profit.
- Limited menu—no tableservice establishments show the highest median restaurant profit of 8.1 percent by type, even though they have the lowest median check (refer to Exhibits 2 and 19).

Comparative analysis

This was the first year that financial information for two years was requested, and the response was very successful. Of the 142 restaurants in the main section of this study, 93 operators provided information for 1984 and 1985. There are two comparison exhibits in this section: amount per seat and ratio to total sales. The food and beverage costs are given as ratios to their respective sales, while the other information is presented as ratios to total food and beverage sales.

For 1985, the medians for beverage sales decreased as both a ratio to total sales and as an amount per seat. This may be a result of the increase in consumer awareness regarding drinking and driving. (Research conducted throughout the entire U.S. shows similar declines in beverage sales.) Restaurant profit increased 0.3 percent in 1985 to a median of 6.5 percent. Fifty percent of the respondents realized restaurant profit between 3.6 percent and 11.3 percent in 1985. (These two figures are the lower and upper quartiles. For further explanation of quartiles and medians, refer to the article "Understanding Medians and Means" on page 5.)

Total sales as an amount per seat increased more than $450 from the results this sample of respondents achieved in 1984. Also, all the individual controllable costs increased in 1985, with direct operating expenses increasing the least, from $345 in 1984 to $347 in 1985. Total occupation costs also rose, but the sales increase was large enough to offset these increases and still allow the median restaurant profit to grow from $427 to $558 in 1985. Overall, it appears that the California restaurant operators who responded to this study had a better year in 1985 than in 1984.

Exhibit 1
Composition of Participating Restaurants

Years in Business:	Percentage of Respondents
Under 5 Years	17.6%
5 to 10 Years	23.2
Over 10 Years	59.2
Type of Restaurant:	
Full Menu—Tableservice	46.5%
Limited Menu—No Tableservice	12.0
Limited Menu—Tableservice	12.0
All Others	29.5
Location:	
Urban	60.7%
Suburban	35.0
Rural	4.3
Affiliation:	
Single Unit—Independent	30.8%
Multi-Unit—Company Operated	52.3
Multi-Unit—Franchisee Operated	16.9
Meals Served:	
Breakfast and Lunch Only	0.8%
Lunch and Dinner Only	50.4
Dinner Only	8.5
All Meals	40.3
Sales Volume:	
Under $1 Million	33.6%
$1 Million–$2 Million	43.5
Over $2 Million	22.9

Profit Versus Loss:	Percentage of Respondents
Net Profit	50.0%
Net Loss	9.2
Not Specified	40.8
Building Located in/Attached to:	
Hotel/Motel	11.0%
Shopping Center/Mall	10.2
Sole Occupant	69.3
All Others	9.5
Lease Versus Own:	
Own Land and Building	16.9%
Lease Land and Building	54.2
Lease Land and Own Building	16.2
Not Specified	12.7
Ownership:	
Sole Proprietorship	12.1%
Partnership	8.5
Public Corporation	15.6
Private Corporation	63.8
Menu Theme:	
Steak/Seafood	20.4%
American	13.4
Sandwich/Hamburger	7.0
Ethnic*	14.8
All Others**	20.4
Not Specified	24.0
Beverages Served	
Full Liquor Service	50.0%
Wine and/or Beer Only	14.8
No Alcoholic Beverages	35.2

*Includes Italian, Continental, French and Mexican.
**Includes chicken, Oriental, salad bars, pizza and regional.

Characteristics

- Full menu-tableservice restaurant more than 10 years old.
- Median sales volume of all respondents was $1.3 million.
- The average size of each participating restaurant was 5,000 square feet, almost 59 percent of which was dining area.
- The median number of seats per restaurant operation in this year's survey was 145, ranging from 8 to 960.
- The typical operation earned a profit and offered full liquor service to its patrons.
- Participants in this year's survey were typically company owned and operated and part of a private corporation.

Highlights

- Food sales were $6,921 per seat while beverage sales accounted for $1,900 per seat.
- Median total food and beverage costs were $2,995 per seat.
- The median check was $10.29 and the average daily seat turnover was 1.78.
- Restaurant profit was 6.4 percent in 1985.
- Total sales per full-time equivalent employee was $34,597 with a productivity index of 3.39.

Exhibit 2
Average Check

	Lower Quartile	Median	Upper Quartile
All California Restaurants	$3.87	$10.29	$17.58
Total U.S.*	$4.24	$ 7.88	$13.94
Age			
Under 5 Years	$7.82	$12.63	$20.05
5 to 10 years	3.55	9.18	16.45
Over 10 Years	3.61	9.83	18.19
Location			
Urban	$3.55	$9.91	$19.71
Suburban	5.43	10.02	15.66
Meals Served			
Lunch & Dinner Only	$5.81	$12.68	$16.69
Dinner Only	18.66	20.55	35.77
All Meals	3.55	3.55	10.10
Menu Theme			
Steak/Seafood	$9.51	$14.06	$16.62
American	5.96	13.66	19.53
Ethnic	7.72	21.25	35.77
Sandwich/Hamburger	4.13	9.43	15.37
Beverages Served			
Full Liquor Service	$12.60	$16.01	$20.55
Wine and/or Beer Only	4.53	5.17	9.35
No Alcoholic Beverages	3.55	3.55	4.78
Profit Versus Loss			
Net Profit	$3.55	$ 7.82	$17.08
Net Loss	4.89	13.94	21.86
Type of Restaurant			
Full Menu — Tableservice	$12.35	$15.83	$22.01
Limited Menu — No Tableservice	**	3.79	**
Limited Menu — Tableservice	9.38	12.49	21.30
Building Located In / Attached To:			
Shopping Center/Mall	$ 5.23	$11.89	$20.55
Sole Occupant	3.55	8.86	15.52

*Based on figures from the *Restaurant Industry Operations Report '86*. Figures represent total for Food-only and Food & Beverage Restaurants.
**Insufficient response.

Exhibit 3
Average Daily Seat Turnover

	Lower Quartile	Median	Upper Quartile
All California Restaurants	1.14	1.78	5.48
Total U.S.*	0.92	1.73	3.47
Age			
Under 5 Years	1.07	1.51	4.29
5 to 10 Years	1.06	1.61	6.98
Over 10 Years	1.17	2.31	5.29
Location			
Urban	1.02	3.33	7.64
Suburban	1.31	1.73	3.12
Meals Served			
Lunch & Dinner Only	.04	1.64	3.35
Dinner Only	0.84	1.03	1.43
All Meals	1.43	4.79	7.80
Menu Theme			
Steak/Seafood	1.10	1.52	3.14
American	1.12	1.50	3.41
Ethnic	0.78	1.07	1.75
Sandwich/Hamburger	1.22	2.49	4.52
Profit Versus Loss			
Net Profit	1.31	2.93	7.29
Net Loss	0.90	1.19	4.20
Type of Restaurant			
Full Menu—Tableservice	0.89	1.30	1.72
Limited Menu—No Tableservice	**	8.71	**
Limited Menu—Tableservice	1.03	1.59	3.19
Beverages Served			
Full Liquor Service	0.97	1.33	1.73
Wine and/or Beer Only	1.30	3.10	3.40
No Alcoholic Beverages	5.50	7.70	8.72
Building Located In/Attached To:			
Shopping Center/Mall	1.30	1.60	3.26
Sole Occupant	1.31	2.85	6.92

*Based on figures from the *Restaurant Industry Operations Report '66*. Figures represent total for Food-only and Food & Beverage Restaurants.
**Insufficient response.

Exhibit 4
Sales Per Square Foot

	Lower Quartile	Median	Upper Quartile
All Restaurants Reporting	$197	$258	$348
Age			
Under 5 Years	$213	$330	$434
5 to 10 Years	175	234	287
Over 10 Years	197	255	360
Type			
Full Menu—Tableservice	$196	$262	$382
Limited Menu—No Tableservice	164	235	368
Limited Menu—Tableservice	142	218	381
Sales Volume			
Under $1 Million	$151	$197	$286
$1 Million–$2 Million	217	270	348
Over $2 Million	220	306	396
Beverages Served			
Full Liquor Service	$197	$244	$380
Wine and/or Beer Only	160	311	413
No Alcoholic Beverages	197	256	318
Location			
Urban	$200	$264	$348
Suburban	181	238	347

Exhibit 5
Earnings Ratio

	Lower Quartile	Median	Upper Quartile
All Restaurants	2.8%	6.3%	10.4%
Age			
Under 5 Years	4.6%	6.7%	14.1%
5 to 10 Years	3.0	6.0	7.8
Over 10 Years	1.8	6.4	11.2
Location			
Urban	2.3%	6.2%	9.7%
Suburban	3.6	10.4	21.1
Own Land & Building	(2.0)%	4.0%	6.1%
Lease Land & Building	2.3%	6.7%	10.7%
Lease Land & Own Building	3.4%	8.1%	12.6%
Restaurant Located In/Attached To:			
Shopping Center/Mall	**	10.4%	**
Sole Occupant	2.2	5.8	10.1
Type of Restaurant			
Full Menu—Tableservice	1.0%	6.7%	10.9%
Limited Menu—Tableservice	1.9	4.3	13.4
Limited Menu—No Tableservice	**	7.4	**

**Insufficient response.

Exhibit 6
Number of Employees*

	Number of Employees Per Restaurant			
	Full-Time	Part-Time (20–35 Hours)	Part-Part-Time (Under 20 Hours)	Number of W-2s Sent Out
All Restaurants	22.0	16.0	10.0	96
Profit Versus Loss				
Net Profit	25.0	16.0	10.0	100
Net Loss	30.0	22.0	10.0	96
Location				
Urban	34.0	15.0	9.0	98
Suburban	10.0	20.0	10.0	86
Type of Restaurant				
Limited Menu—No Tableservice	4.0	7.0	3.0	37
Full Menu—Tableservice	22.0	20.0	10.0	112
Limited Menu—Tableservice	8.5	22.5	12.0	86
Menu Theme				
Steak/Seafood	16.5	24.0	15.0	125
American	30.0	20.0	9.0	103
Ethnic	15.0	15.0	6.0	66
Sandwich/Hamburger	10.0	7.5	8.0	**

*All amounts are medians.
**Insufficient response.

Exhibit 7
Employee Information*

	Full-Time Equivalent Employees			Amount Per Full-Time Equivalent Employee			
	Total	Per 100 Restaurant Seats	Per 100 Average Daily Covers	Total Sales	Total Payroll	Training Costs	Index of Productivity
All Restaurants	36.8	22.8	12.1	$34,597	$10,134	$212	3.39
Profit Versus Loss							
Net Profit	35.8	25.0	10.1	$34,574	$10,164	$263	3.47
Net Loss	47.0	21.3	12.9	35,104	12,117	253	2.79
Location							
Urban	42.0	29.7	10.7	$33,217	$ 9,924	$737	3.34
Suburban	33.5	17.9	12.3	39,163	10,965	118	3.48
Type of Restaurant							
Limited Menu—No Tableservice	10.3	28.9	4.6	$44,347	$ 8,662	$218	5.60
Full Menu—Tableservice	41.3	21.3	15.7	40,881	11,470	111	3.44
Limited Menu—Tableservice	40.0	20.0	12.3	34,539	10,915	**	3.27
Menu Theme							
Steak/Seafood	38.3	17.4	12.3	$43,196	$11,431	$ 78	3.93
American	46.0	22.8	15.7	34,574	10,919	166	3.35
Ethnic	33.5	21.3	21.6	39,273	12,117	105	3.44
Sandwich/Hamburger	22.0	21.1	**	28,321	8,615	109	3.21

*All amounts are medians.
**Insufficient response.

Exhibit 8
Cost Per Dollar of Sales*

	Food Cost***	Beverage Cost***	Total Cost of Sales	Total Payroll	Prime Cost
All Restaurants	36.1¢	25.7¢	35.2¢	31.0¢	66.6¢
Total U.S.†	36.3¢	26.6¢	34.7¢	30.2¢	65.2¢
Location					
Urban	36.6¢	26.7¢	35.8¢	30.7¢	66.8¢
Suburban	34.2	24.3	31.9	33.0	65.2
Menu Theme					
Steak/Seafood	40.0¢	23.4¢	34.5¢	27.0¢	64.9¢
American	35.5	24.6	35.1	30.2	65.3
Ethnic	36.1	30.2	33.2	31.0	65.2
Sandwich/Hamburger	30.5	**	30.5	33.7	66.7
Age					
Under 5 years	36.5¢	28.8¢	35.4¢	31.4¢	67.1¢
5–10 years	36.6	22.9	35.5	31.3	68.1
Over 10 years	35.8	25.5	35.2	30.7	66.0
Profit Versus Loss					
Net Profit	36.1¢	24.4¢	35.7¢	30.0¢	65.3¢
Net Loss	36.7	27.5	33.4	36.1	72.6
Type of Restaurant					
Full Menu—Tableservice	36.6¢	24.6¢	33.2¢	30.7¢	64.7¢
Limited Menu—Tableservice	33.7	27.2	33.0	34.4	68.7
Limited Menu—No Tableservice	34.7	**	35.3	18.5	54.3

*All amounts are medians and do not necessarily add to totals shown.
**Insufficient response.
***Based on individual department sales.
†Based on figures from the *Restaurant Industry Operations Report '86*. Figures represent total for Food-only and Food & Beverage Restaurants.

Exhibit 9
Occupancy Costs, Interest and Depreciation—Amount Per Seat*

			Type of Restaurant			Location		Sales Volume		
	Total U.S.†	Total Calif.	Limited Menu—No Tableservice	Full Menu—Tableservice	Limited Menu—Tableservice	Urban	Suburban	Under $1 Million	$1 Million–$2 Million	Over $2 Million
Rent	$307	$424	$403	$488	$347	$448	$381	$358	$492	$544
Property Taxes	32	42	117	43	32	33	47	35	48	33
Other Taxes	13	16	145	16	**	21	9	38	10	26
Property Insurance	45	56	50	59	73	62	47	49	51	63
Interest	65	97	**	130	213	117	72	101	124	56
Depreciation	149	187	520	186	197	188	162	200	167	176

*All amounts are medians.
**Insufficient response.
†Based on figures from the *Restaurant Industry Operations Report '86*. Figures represent total for Food-Only and Food & Beverage Restaurants.

Exhibit 10

**Cross Tabulation of Income Before Occupation Costs—
Amount Per Seat and Ratio to Total Sales—
By Sales Volume and Location***

Amount Per Seat / Ratio to Total Sales		Location		
		Urban	Suburban	Total
Sales Volume	Under $1 Million	$1,550 17.9%	$1,122 27.6%	$1,104 19.2%
	$1 Million–$2 Million	$1,514 15.1%	$1,517 19.4%	$1,504 17.1%
	Over $2 Million	$1,949 15.3%	$1,094 15.4%	$1,681 15.1%
	Total	$1,614 15.7%	$1,306 20.2%	$1,475 17.4%

*All amounts are medians.

Exhibit 11

**Cross Tabulation of Restaurant Profit—
Amount Per Seat and Ratio to Total Sales—
By Sales Volume and Location***

Amount Per Seat / Ratio to Total Sales		Location		
		Urban	Suburban	Total
Sales Volume	Under $1 Million	$268 3.4%	$475 12.7%	$385 6.4%
	$1 Million–$2 Million	$723 7.0%	$373 5.5%	$623 6.5%
	Over $2 Million	$610 7.6%	$358 4.1%	$608 5.7%
	Total	$627 6.5%	$425 6.4%	$554 6.4%

*All amounts are medians.

Exhibit 12
**Cross Tabulation of Income Before Occupation Costs—
Amount Per Seat and Ratio to Total Sales—
By Sales Volume and Menu Theme***

Amount Per Seat / Ratio to Total Sales		Menu Theme				
		Steak/ Seafood	Ethnic	American	Sandwich/ Hamburger	Total
Sales Volume	Under $1 Million	$ 963 19.2%	$2,066 25.6%	** **	$935 16.7%	$1,104 19.2%
	$1 Million–$2 Million	$1,671 19.8%	$1,258 16.6%	$2,044 20.2%	** **	$1,504 17.1%
	Over $2 Million	$1,621 17.1%	$1,861 13.9%	$1,732 16.8%	** **	$1,681 15.1%
	Total	$1,577 19.4%	$1,299 19.6%	$1,741 19.1%	$980 17.2%	$1,475 17.4%

*All figures are medians.
**Insufficient response.

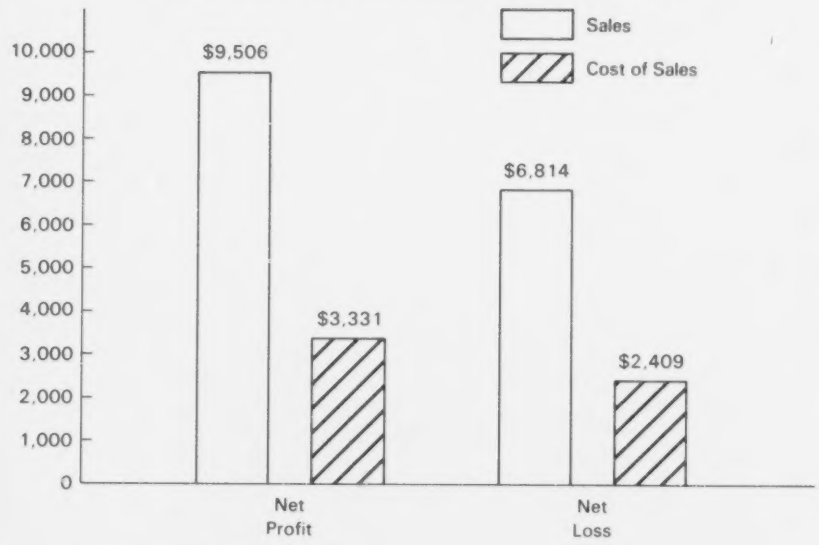
Exhibit 13
**Cross Tabulation of Restaurant Profit—
Amount Per Seat and Ratio to Total Sales—
By Sales Volume and Menu Theme***

Amount Per Seat / Ratio to Total Sales		Menu Theme				
		Steak/ Seafood	Ethnic	American	Sandwich/ Hamburger	Total
Sales Volume	Under $1 Million	$133 3.4%	$1,269 14.1%	** **	$ 6 0.2%	$385 6.4%
	$1 Million–$2 Million	$627 7.9%	$ 134 5.4%	$724 7.9%	** **	$623 6.5%
	Over $2 Million	$712 7.6%	$ 430 4.2%	$807 11.3%	** **	$608 5.7%
	Total	$571 7.6%	$ 491 7.7%	$511 6.3%	$355 5.3%	$554 6.4%

*All figures are medians.
**Insufficient response.

CHART 2

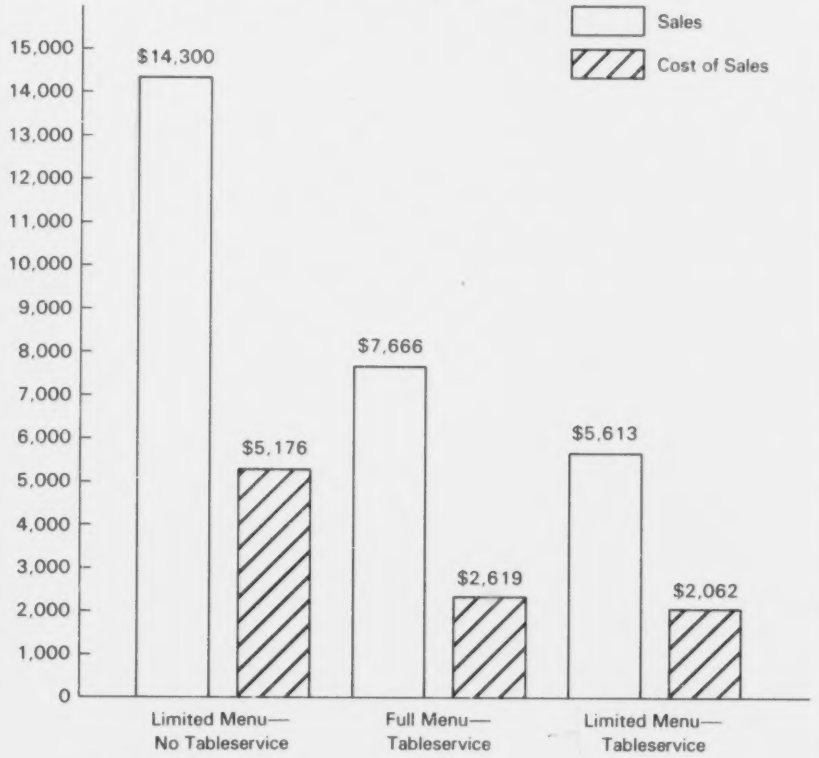
Sales vs. Cost of Sales*
Amount Per Seat—Net Profit vs. Net Loss



*All amounts are medians.

CHART 3

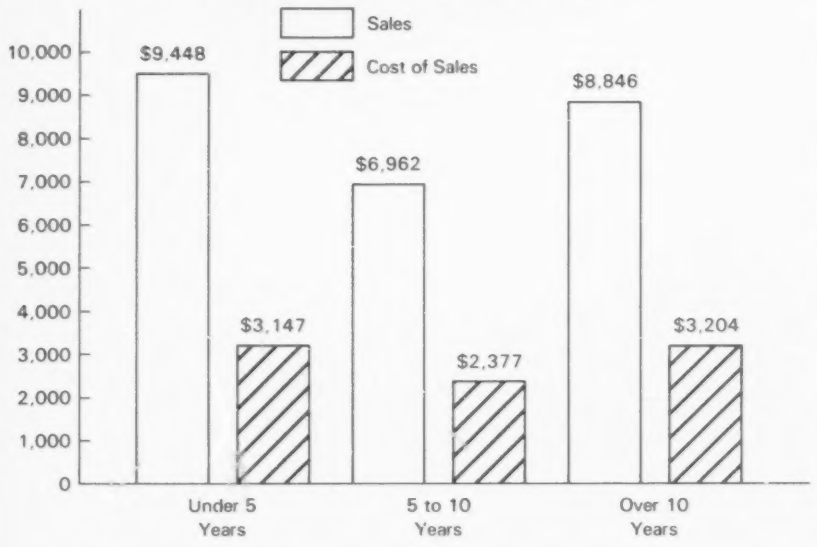
Sales vs. Cost of Sales*
Amount Per Seat—Type of Restaurant



*All amounts are medians.

CHART 4

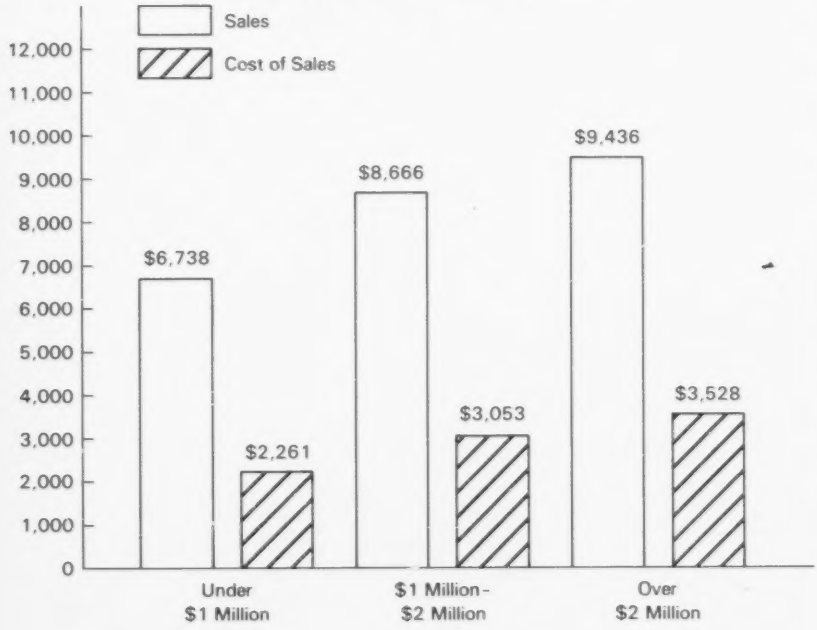
Sales vs. Cost of Sales*
Amount Per Seat—Age of Restaurant



*All amounts are medians.

CHART 5

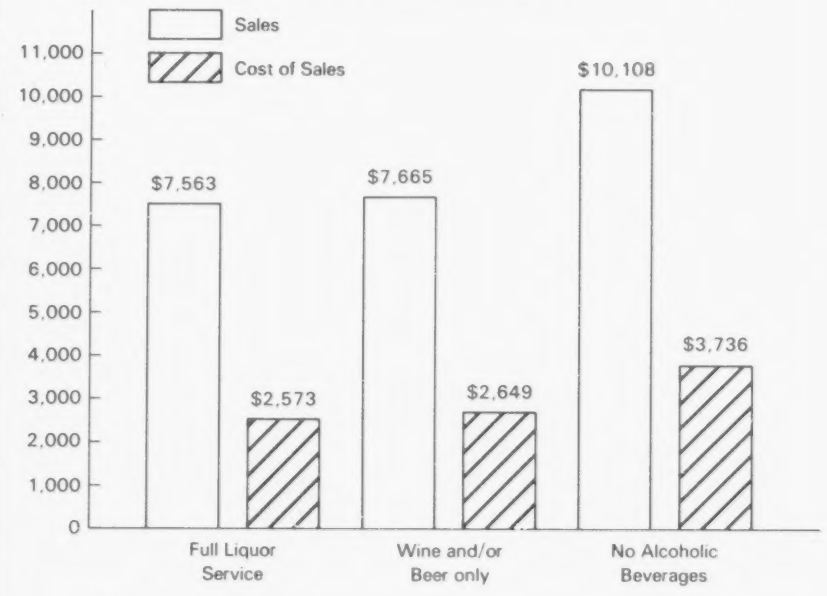
Sales vs. Cost of Sales*
Amount Per Seat—Sales Volume



*All amounts are medians.

CHART 6

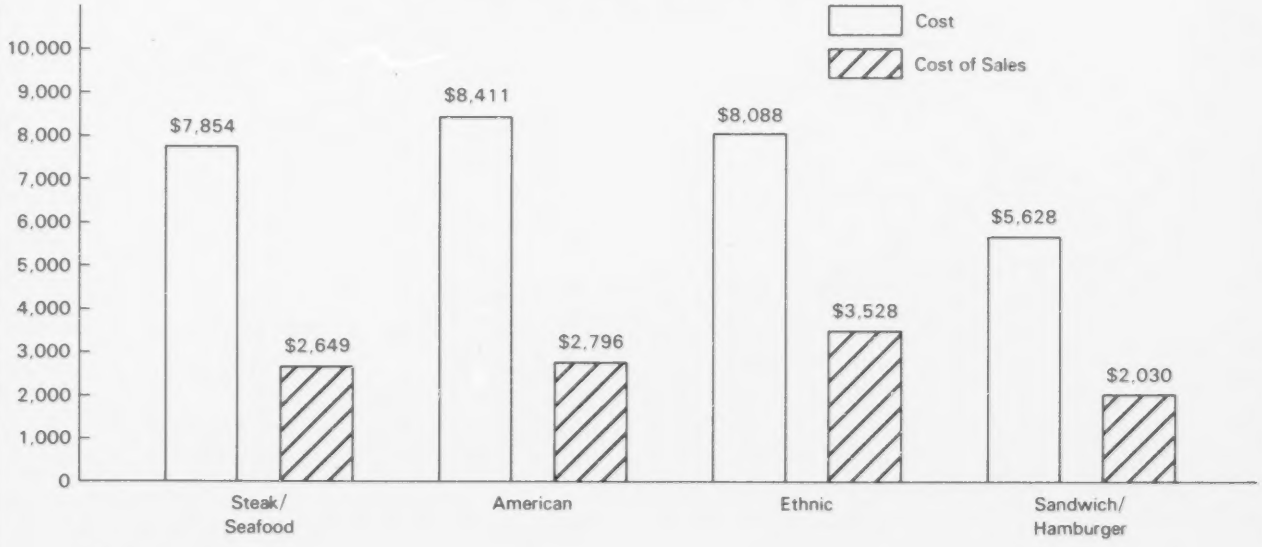
Sales vs. Cost of Sales*
Amount Per Seat—Beverages Served



*All amounts are medians.

CHART 7

Cost vs. Cost of Sales*
Amount Per Seat—Menu Theme



*All amounts are medians.

Exhibit 14

Ratio to Total Sales and Amount Per Seat
All Restaurants*

	Ratio to Total Sales				Amount Per Seat			
	California			Total U.S. Median†	California			Total U.S. Median†
	Lower Quartile	Median	Upper Quartile		Lower Quartile	Median	Upper Quartile	
Sales								
Food	72.4%	82.5%	100.0%	82.4%	$4,282	$6,921	$10,007	$4,151
Beverage	19.9	26.0	30.6	22.8	991	1,900	2,880	895
Total Sales	100.0	100.0	100.0	100.0	5,787	8,123	11,402	5,002
Cost of Sales								
Food	32.5	36.1	38.3	36.3	1,547	2,669	3,748	1,520
Beverage	21.2	25.7	30.7	26.6	231	500	793	238
Total Cost of Sales	31.5	35.1	36.7	35.1	2,009	2,995	4,033	1,787
Total Gross Profit	63.3	64.9	68.5	64.9	3,773	5,361	7,406	3,314
Other Income	0.3	0.6	1.2	0.8	15	38	135	34
Total Income	63.4	65.6	69.1	65.9	3,896	5,487	7,424	3,354
Controllable Expenses								
Payroll	20.7	25.3	28.4	26.3	1,394	2,217	2,860	1,334
Employee Benefits	3.4	5.7	6.7	3.5	275	448	661	165
Direct Operating Expenses	3.4	4.5	6.8	4.8	255	357	564	240
Music & Entertainment	0.1	0.4	1.8	0.4	8	25	117	17
Advertising & Promotion	1.3	2.4	3.5	2.4	90	179	278	120
Utilities	2.4	3.1	4.2	3.5	188	267	355	192
Administrative & General	1.8	4.2	6.3	4.0	108	336	630	205
Repairs & Maintenance	1.5	2.0	2.7	1.9	102	189	258	102
Total Controllable Expenses	41.6	47.8	52.4	48.2	2,720	4,273	5,221	2,427
Income Before Occupation Costs	13.4	17.4	25.6	17.3	827	1,475	2,150	870
Occupation Costs								
Rent	3.2	5.3	6.9	5.5	262	424	614	307
Property Taxes	0.3	0.5	0.9	0.6	22	42	59	32
Other Taxes	0.1	0.2	0.6	0.3	7	16	35	13
Property Insurance	0.4	0.7	1.0	0.8	42	56	82	45
Total Occupation Costs	4.4	6.0	8.6	6.6	320	500	706	362
Income Before Interest & Depreciation	6.3	10.3	16.8	10.1	457	862	1,680	512
Interest	0.4	1.4	1.9	1.3	38	97	178	65
Depreciation	1.3	2.1	3.8	2.8	101	187	286	149
Restaurant Profit	2.9%	6.4%	12.8%	5.8%	$ 134	$ 554	$ 1,074	$ 270

*All figures are medians and do not necessarily add to totals shown. Food and beverage ratios are based on individual department sales.
†Based on figures from *Restaurant Industry Operations Report '86*. Figures represent total for Food-Only and Food & Beverage.

Exhibit 15
Ratio to Total Sales and Amount Per Seat By Net Income Differential*

	Ratio to Total Sales		Amount Per Seat	
	Net Profit	Net Loss	Net Profit	Net Loss
Sales				
Food	82.5%	73.9%	$8,602	$4,639
Beverage	25.9	28.4	1,998	1,836
Total Sales	100.0	100.0	9,506	6,814
Cost of Sales				
Food	36.1	36.7	3,043	1,697
Beverage	24.4	27.5	503	588
Total Cost of Sales	35.7	33.4	3,331	2,409
Gross Profit	64.3	66.6	6,189	4,468
Other Income	0.5	**	31	**
Total Income	64.5	66.8	6,189	4,468
Controllable Expenses				
Payroll	24.2	29.1	2,334	2,181
Employee Benefits	5.5	7.3	470	451
Direct Operating Expenses	4.2	5.0	370	358
Music & Entertainment	0.3	**	22	**
Advertising & Promotion	2.4	2.1	230	152
Utilities	3.1	3.6	276	272
Administrative & General	5.3	6.3	429	422
Repairs & Maintenance	2.0	1.7	196	152
Total Controllable Expenses	47.3	55.8	4,575	3,886
Income Before Occupation Costs	17.5	7.4	1,711	486
Occupation Costs				
Rent	5.2	6.1	500	375
Property Taxes	0.4	0.6	35	40
Other Taxes	0.2	**	10	**
Property Insurance	0.5	0.9	50	81
Total Occupation Costs	5.9	6.5	539	421
Income Before Interest & Depreciation	11.2	0.4	1,182	30
Interest	1.4	1.5	117	87
Depreciation	1.8	3.3	172	260
Restaurant Profit	7.6%	(3.2)%	$1,219	$(229)

*All ratios are based as a percent of total sales except food and beverage costs which are based on their respective sales.
**Insufficient response.

Exhibit 16
Ratio to Total Sales and Amount Per Seat By Age of Restaurant*

	Ratio to Total Sales			Amount Per Seat		
	Under 5 Years	5 to 10 Years	Over 10 Years	Under 5 Years	5 to 10 Years	Over 10 Years
Sales						
Food	75.8%	87.9%	84.6%	$7,871	$5,306	$7,952
Beverage	26.7	27.4	25.8	2,116	1,299	1,991
Total Sales	100.0	100.0	100.0	9,448	6,962	8,846
Cost of Sales						
Food	36.5	36.6	35.8	2,675	2,323	2,958
Beverage	28.8	22.9	25.5	779	277	570
Total Cost of Sales	35.4	35.5	35.2	3,147	2,377	3,204
Gross Profit	65.6	64.5	64.8	6,533	4,427	5,673
Other Income	0.3	0.3	0.6	30	19	65
Total Income	66.3	65.5	65.5	6,544	4,468	5,673
Controllable Expenses						
Payroll	27.1	25.5	23.3	2,682	1,638	2,262
Employee Benefits	3.8	5.6	5.9	371	371	450
Direct Operating Expenses	6.0	4.6	4.0	500	345	317
Music & Entertainment	0.7	1.9	0.2	35	108	15
Advertising & Promotion	1.8	2.4	2.4	147	156	202
Utilities	3.0	3.5	3.0	260	271	267
Administrative & General	4.5	4.0	4.2	327	313	374
Repairs & Maintenance	1.5	2.6	1.9	170	179	203
Total Controllable Expenses	48.0	48.8	47.3	4,664	3,351	4,495
Income Before Occupation Costs	17.3	15.6	18.1	1,563	1,149	1,568
Occupation Costs						
Rent	5.9	6.2	4.9	539	493	369
Property Taxes	0.5	0.9	0.5	29	52	35
Other Taxes	0.2	0.1	0.2	15	9	19
Property Insurance	0.9	1.0	0.6	61	55	56
Total Occupation Costs	6.5	7.0	5.2	628	500	440
Income Before Interest & Depreciation	10.3	7.7	12.5	876	620	900
Interest	1.7	0.5	1.0	151	53	72
Depreciation	2.3	3.0	1.9	263	208	163
Restaurant Profit	6.5%	6.4%	6.4%	$ 512	$ 438	$ 590

*All amounts are medians and do not necessarily add to totals shown. Food and Beverage ratios are based on individual department sales.

Exhibit 17
Ratio to Total Sales and Amount Per Seat By Sales Volume*

	Ratio to Total Sales			Amount Per Seat		
	Under $1 Million	$1 Million–$2 Million	Over $2 Million	Under $1 Million	$1 Million–$2 Million	Over $2 Million
Sales						
Food	100.0%	80.1%	71.3%	$5,943	$7,952	$6,492
Beverage	20.5	25.8	29.5	702	1,821	2,922
Total Sales	100.0	100.0	100.0	6,738	8,666	9,436
Cost of Sales						
Food	32.5	36.9	36.1	2,211	3,002	2,481
Beverage	28.1	25.1	23.4	184	462	686
Total Cost of Sales	32.5	35.8	34.0	2,261	3,053	3,528
Gross Profit	67.5	64.2	66.0	4,485	5,539	6,431
Other Income	0.6	0.3	0.8	41	27	93
Total Income	68.1	64.5	66.0	4,485	5,539	6,928
Controllable Expenses						
Payroll	22.9	25.8	25.4	1,914	2,243	2,364
Employee Benefits	3.4	5.7	7.1	273	500	589
Direct Operating Expenses	4.4	3.9	5.1	330	395	514
Music & Entertainment	0.2	0.7	1.3	12	25	109
Advertising & Promotion	3.0	2.4	1.8	112	202	179
Utilities	4.3	3.1	2.4	271	259	272
Administrative & General	4.7	4.3	3.1	374	364	234
Repairs & Maintenance	2.0	2.0	2.1	170	188	249
Total Controllable Expenses	47.0	48.3	50.8	3,355	4,377	4,798
Income Before Occupation Costs	19.2	17.1	15.1	1,104	1,504	1,681
Occupation Costs						
Rent	5.5	5.1	4.8	358	492	544
Property Taxes	0.5	0.6	0.3	35	48	33
Other Taxes	0.8	0.1	0.2	38	10	26
Property Insurance	0.6	0.7	0.7	49	51	63
Total Occupation Costs	6.5	5.5	6.1	441	513	648
Income Before Interest & Depreciation	13.3	10.0	7.9	719	866	881
Interest	1.4	1.4	0.8	101	124	56
Depreciation	3.1	2.0	1.4	200	167	176
Restaurant Profit	6.4%	6.5%	5.7%	$ 385	$ 623	$ 608

*All figures are medians and do not necessarily add to totals shown. Food and Beverage ratios are based on individual department sales.

Exhibit 18
Ratio to Total Sales and Amount Per Seat By Beverages Served*

	Ratio to Total Sales			Amount Per Seat		
	Full Liquor Service	Wine and/or Beer Only	No Alcoholic Beverages	Full Liquor Service	Wine and/or Beer Only	No Alcoholic Beverages
Sales						
Food	72.7%	89.0%	100.0%	$5,528	$4,643	$10,108
Beverage	27.3	11.0	NA	1,998	390	NA
Total Sales	100.0	100.0	100.0	7,563	7,665	10,108
Cost of Sales						
Food	36.7	32.4	36.1	2,063	1,843	3,736
Beverage	24.3	35.7	NA	538	97	NA
Total Cost of Sales	33.4	35.4	36.1	2,573	2,649	3,736
Gross Profit	66.6	64.6	63.9	4,986	5,016	6,382
Other Income	0.5	**	0.5	41	**	18
Total Income	66.8	66.3	64.2	5,061	5,016	6,382
Controllable Expenses						
Payroll	26.3	21.1	25.2	2,050	1,441	2,509
Employee Benefits	5.4	4.5	6.0	458	308	553
Direct Operating Expenses	6.4	4.8	3.6	455	271	337
Music & Entertainment	0.7	**	0.1	51	**	**
Advertising & Promotion	1.7	2.5	2.4	146	96	242
Utilities	2.7	2.7	3.9	235	178	350
Administrative & General	3.5	1.6	6.1	259	72	615
Repairs & Maintenance	2.0	1.5	2.2	172	69	236
Total Controllable Expenses	49.4	42.6	48.3	3,814	2,719	4,897
Income Before Occupation Costs	17.0	25.7	15.5	1,306	1,891	1,512
Occupation Costs						
Rent	6.1	5.1	5.0	486	268	427
Property Taxes	0.5	0.4	0.5	47	26	53
Other Taxes	0.2	0.1	1.2	16	9	145
Property Insurance	0.9	0.4	0.5	62	25	63
Total Occupation Costs	7.1	5.8	5.5	570	314	513
Income Before Interest & Depreciation	8.7	23.0	9.6	767	1,320	891
Interest	1.8	1.3	0.5	134	67	77
Depreciation	2.4	1.9	2.1	207	143	200
Restaurant Profit	4.7%	14.1%	6.5%	$ 366	$ 768	$ 636

*All figures are medians and do not necessarily add to totals shown. Food and Beverage ratios are based on individual department sales.
**Insufficient number of restaurants reporting data.
NA-Not applicable.

Exhibit 19
Ratio to Total Sales and Amount Per Seat By Type of Restaurant*

	Ratio to Total Sales			Amount Per Seat		
	Limited Menu—No Tableservice	Full Menu—Tableservice	Limited Menu—Tableservice	Limited Menu—No Tableservice	Full Menu—Tableservice	Limited Menu—Tableservice
Sales						
Food	100.0%	73.9%	79.9%	$14,300	$5,749	$4,652
Beverage	**	26.8	21.5	**	2,006	1,375
Total Sales	100.0	100.0	100.0	14,300	7,666	5,613
Cost of Sales						
Food	34.7	36.6	33.7	5,176	2,128	1,678
Beverage	**	24.6	27.2	**	637	497
Total Cost of Sales	34.7	33.6	33.0	5,176	2,619	2,062
Total Gross Profit	65.3	66.4	67.0	9,488	5,136	4,606
Other Income	0.6	0.4	0.7	**	27	38
Total Income	65.5	66.9	69.2	9,488	5,203	4,626
Controllable Expenses						
Payroll	16.7	25.8	27.3	2,456	2,050	1,825
Employee Benefits	1.3	4.4	7.9	224	378	503
Direct Operating Expenses	3.5	6.4	5.6	346	422	305
Music & Entertainment	0.1	0.8	0.2	**	58	19
Advertising & Promotion	5.1	1.6	1.7	920	129	134
Utilities	4.3	2.8	2.9	571	235	238
Administrative & General	5.6	3.5	4.0	1,183	233	205
Repairs & Maintenance	2.0	1.9	1.8	309	168	110
Total Controllable Expenses	38.5	48.0	51.1	5,680	3,818	3,201
Income Before Occupation Costs	27.2	19.1	17.4	2,983	1,487	1,145
Occupation Costs						
Rent	4.1	5.6	5.7	403	488	347
Property Taxes	0.6	0.5	0.6	117	43	32
Other Taxes	1.7	0.2	**	145	16	17
Property Insurance	0.5	0.8	0.9	50	59	73
Total Occupation Costs	6.9	6.6	6.4	670	570	410
Income Before Interest & Depreciation	15.1	9.9	11.2	1,097	782	782
Interest	**	1.8	2.1	**	130	213
Depreciation	2.4	2.3	2.9	520	186	197
Restaurant Profit	9.1%	6.6%	4.6%	$ 748	$ 468	$ 364

*All figures are medians and do not necessarily add to totals shown. Food and Beverage ratios are based on individual dept sales.
**Insufficient number of restaurants reporting.

Exhibit 20
Statement of Income and Expenses—Ratio to Total Sales By Menu Theme*

	Menu Theme			
	Steak/Seafood	Ethnic	American	Sandwich/Hamburger
Sales				
Food	74.1%	73.2%	74.2%	100.0%
Beverage	25.9	26.8	27.6	**
Total Sales	100.0	100.0	100.0	100.0
Cost of Sales				
Food	40.0	33.0	35.5	30.6
Beverage	23.7	30.2	24.6	**
Total Cost of Sales	35.3	33.0	34.7	30.6
Gross Profit	64.7	67.0	65.3	69.4
Other Income	0.3	1.2	0.6	**
Total Income	64.9	67.3	65.7	69.4
Controllable Expenses				
Payroll	22.7	27.7	27.3	30.2
Employee Benefits	5.4	3.8	4.3	6.0
Direct Operating Expenses	5.8	6.5	6.0	3.0
Music & Entertainment	0.2	**	1.0	**
Advertising & Promotion	1.5	2.5	1.6	2.4
Utilities	2.9	2.5	3.0	4.8
Administrative & General	3.4	4.9	3.9	1.7
Repairs & Maintenance	1.8	2.0	1.7	2.7
Total Controllable Expenses	44.2	48.7	45.1	51.1
Income Before Occupation Costs	19.4	19.1	19.6	17.2
Occupation Costs				
Rent	4.8	6.0	5.3	5.7
Property Taxes	0.6	0.3	0.5	0.6
Other Taxes	0.1	**	**	**
Property Insurance	0.9	0.7	0.7	**
Total Occupation Costs	5.6	7.0	6.4	6.6
Income Before Interest & Depreciation	10.0	12.0	13.1	9.0
Interest	1.8	1.9	0.8	**
Depreciation	1.9	2.0	2.2	4.0
Restaurant Profit	7.6%	6.3%	7.8%	5.3%

*All figures are medians and do not necessarily add to totals shown. Food and Beverage ratios are based on individual department sales.
**Insufficient response.

Exhibit 21
Statement of Income and Expenses—Amount Per Seat By Menu Theme*

	Menu Theme			
	Steak/Seafood	Ethnic	American	Sandwich/ Hamburgers
Sales				
Food	$5,749	$5,864	$6,099	$5,628
Beverage	1,821	2,143	1,991	**
Total Sales	7,854	8,088	8,411	5,628
Cost of Sales				
Food	2,223	2,122	2,297	2,030
Beverage	442	779	607	**
Total Cost of Sales	2,649	3,528	2,796	2,030
Gross Profit	5,136	5,403	5,632	3,508
Other Income	27	91	57	12
Total Income	5,147	5,403	5,639	3,611
Controllable Expenses				
Payroll	1,700	2,473	2,289	1,600
Employee Benefits	384	341	436	388
Direct Operating Expenses	385	564	356	159
Music & Entertainment	19	**	61	**
Advertising & Promotion	171	147	102	89
Utilities	214	259	226	267
Administrative & General	190	289	254	77
Repairs & Maintenance	162	170	131	180
Total Controllable Expenses	3,128	3,840	4,143	2,802
Income Before Occupation Costs	1,577	1,741	1,299	980
Occupation Costs				
Rent	346	462	377	377
Property Taxes	48	22	34	43
Other Taxes	9	**	**	**
Property Insurance	61	48	58	48
Total Occupation Costs	546	512	441	455
Income Before Interest & Depreciation	1,243	777	871	546
Interest	143	234	50	**
Depreciation	162	169	200	152
Restaurant Profit	$ 571	$ 511	$ 491	$ 355

*All figures are medians and do not necessarily add to totals shown. Food and Beverage ratios are based on individual department sales.
**Insufficient response.

Exhibit C-1

Comparative Analysis 1985 and 1984

Statement of Income and Expenses—Ratio to Total Sales

	1985			1984		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Sales						
Food	72.6%	82.5%	100.0%	71.6%	81.6%	100.0%
Beverage	20.2	26.0	30.6	21.4	26.7	30.0
Total Sales	100.0	100.0	100.0	100.0	100.0	100.0
Cost of Sales						
Food	33.1	36.3	38.0	35.8	37.7	40.1
Beverage	20.8	23.8	29.9	20.9	24.0	31.0
Total Cost of Sales	32.9	35.7	37.0	34.1	36.3	38.4
Gross Profit	63.0	64.3	67.1	61.6	63.7	65.9
Other Income	0.3	0.4	1.6	0.1	0.4	1.1
Total Income	63.3	64.5	67.9	61.9	63.7	66.6
Controllable Expenses						
Payroll	20.8	25.2	27.7	20.4	25.9	27.9
Employee Benefits	4.1	5.7	6.6	3.8	5.4	6.2
Direct Operating Expenses	3.4	4.4	6.5	3.4	4.1	6.9
Music & Entertainment	0.1	0.7	2.7	0.2	0.7	2.4
Advertising & Promotion	1.3	2.4	3.0	1.2	1.8	2.6
Utilities	2.4	3.1	3.9	2.4	3.0	3.9
Administrative & General	3.0	5.2	6.3	3.1	4.4	6.5
Repairs & Maintenance	1.5	2.0	2.7	1.5	2.1	2.5
Total Controllable Expenses	42.6	47.8	52.4	42.4	47.4	52.3
Income Before Occupation Costs	12.7	15.9	24.2	10.9	16.9	22.4
Occupation Costs						
Rent	3.3	5.3	6.9	4.1	5.2	6.7
Property Taxes	0.2	0.5	1.0	0.2	0.5	1.0
Other Taxes	0.1	0.1	0.2	0.1	0.1	0.3
Property Insurance	0.4	0.7	1.1	0.3	0.4	0.8
Total Occupation Costs	4.6	5.5	8.6	4.5	5.7	7.7
Income Before Interest & Depreciation	5.6	9.6	14.9	5.5	9.5	13.8
Interest	0.3	1.2	1.9	0.2	1.1	2.4
Depreciation	1.1	1.9	3.1	1.0	2.0	3.4
Restaurant Profit	3.6%	6.5%	11.3%	2.6%	6.2%	11.1%

Exhibit C-2

Comparative Analysis 1985 and 1984

Statement of Income and Expenses—Amount Per Seat

	1985			1984		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Sales						
Food	$4,153	$7,494	$ 9,788	$4,228	$7,356	$ 9,496
Beverage	1,050	1,889	2,929	1,222	2,021	2,924
Total Sales	5,867	8,102	10,986	5,613	7,644	10,197
Cost of Sales						
Food	1,657	2,726	3,597	1,689	2,726	3,492
Beverage	264	447	789	269	486	849
Total Cost of Sales	2,047	2,989	3,806	2,017	2,874	3,819
Gross Profit	3,906	5,308	6,936	3,676	4,981	6,260
Other Income	19	31	124	9	39	116
Total Income	3,997	5,365	6,936	3,743	5,098	6,260
Controllable Expenses						
Payroll	1,383	2,181	2,768	1,279	2,062	2,644
Employee Benefits	324	458	657	268	424	586
Direct Operating Expenses	277	347	504	266	345	468
Music & Entertainment	10	43	185	14	41	152
Advertising & Promotion	106	184	271	94	155	201
Utilities	186	272	343	167	250	323
Administrative & General	137	414	626	131	379	558
Repairs & Maintenance	81	188	256	97	171	218
Total Controllable Expenses	2,720	3,981	5,158	2,558	3,963	4,802
Income Before Occupation Costs	871	1,394	2,085	873	1,272	1,909
Occupation Costs						
Rent	298	425	614	294	419	621
Property Taxes	18	46	60	15	40	62
Other Taxes	6	9	21	5	10	32
Property Insurance	34	50	87	18	28	60
Total Occupation Costs	320	467	684	324	436	649
Income Before Interest & Depreciation	463	845	1,532	412	913	1,191
Interest	17	79	177	18	77	189
Depreciation	89	168	262	80	166	272
Restaurant Profit	$ 213	$ 558	$ 1,101	$ 172	$ 427	$ 1,008

ANALYZE YOUR RESTAURANT

A periodic analysis of your restaurant's financial performance may provide some early warning signs of potential problems. Food costs or payroll may be inching up month by month. Some controllable expenses might be increasing while others are decreasing.

Day-to-day changes in your costs could appear small and might go unnoticed. However, examination on a regular basis could uncover undesirable trends and allow you to take corrective action and control situations that could lead to a crisis. That is the key to effective management.

The worksheet on the opposite page is designed to help you analyze how well your restaurant is doing in comparison with the rest of the industry.

Follow these simple instructions for completing the worksheet:

1. Enter your financial data in the first column.

2. Compute the percentages for Column Two by dividing the amounts by total sales. (Note: Where food and beverage sales are broken down separately, compute percentage of food cost by dividing cost of food by food sales; for the beverage cost percentage, divide the cost of beverages by beverage sales.)

3. List the appropriate comparative percentages or ratios from this report in Column Three.

4. Compute the variances by dividing the difference between the figures in Column Two and Column Three by the figures in Column Three. Multiply the result by 100 to express the variance as a percentage.

5. If the variance is greater than plus or minus 10 percent, further analysis should be made to determine the reason for that variance.

Worksheet

Complete and Compare Statement of Income and Expenses	Your Figures (Dollars)	Your Figures (% of Sales)	*California Restaurant Industry* Report	Variance + or −
Sales				
Food	$	%	%	
Beverage	$	%	%	
Total Sales	$	%	%	
Cost of Sales				
Food	$	%	%	
Beverage	$	%	%	
Total Cost of Sales	$	%	%	
Total Gross Profit	$	%	%	
Other Income	$	%	%	
Total Income	$	%	%	
Controllable Expenses				
Payroll	$	%	%	
Employee Benefits	$	%	%	
Direct Operating Expenses	$	%	%	
Music & Entertainment	$	%	%	
Advertising & Promotion	$	%	%	
Utilities	$	%	%	
Administrative & General	$	%	%	
Repairs & Maintenance	$	%	%	
Total Controllable Expenses	$	%	%	
Income Before Occupation Costs	$	%	%	
Total Occupation Costs	$	%	%	
Income Before Depreciation	$	%	%	
Depreciation	$	%	%	
Restaurant Profit	$	%	%	

EXPLANATION OF TERMS

Median—lower quartile—upper quartile

In a column arranged in regular sequence from high to low, or vice versa, the median is the middle figure. In the case of operating results, this means that half the restaurants represented had better results than the median and half had poorer results.

The lower quartile is the dividing point between the lowest quarter and the upper three-quarters of the group. The upper quartile is the dividing point between the highest quarter and the lower three-quarters of the group. Thus, the lower quartile, median and upper quartile divide a series of figures into four equal parts. The results of the middle half of the restaurants fall between the lower and upper quartiles.

For a more detailed explanation of these terms, refer to *"Understanding Medians and Means"* on page 5.

Food sales

This category includes revenue derived from the sale of food in the restaurant. Food sales also include the sale of coffee, tea, milk and fruit juices, which usually are served as part of a meal. If there is no service of liquor, beer or wines, the soft drink sales also would be included in this category.

Beverage sales

This category includes revenue from the sale of wine, spirits, liqueurs, beer, ale and soft drinks. These sales do not include coffee, tea, milk or fruit juices, which normally are served with meals and, therefore, are considered food.

Payroll

This category includes the regular salaries and wages, extra wages, overtime, vacation pay and any commission or bonus payments made to employees. The entire restaurant payroll generally is included under this category.

Employee benefits

This category includes Federal Retirement (Social Security) Tax (FICA), Federal and State Unemployment Taxes and State Health Insurance Tax. Other items considered benefits are Workmen's Compensation Insurance Premiums, Welfare Plan Payments, Pension Plan Payments, Accident and Health Insurance Premiums and Hospitalization, Blue Cross, Blue Shield and Group Insurance Premiums. Also listed under employee benefits are education expenses, Christmas parties, employee sports activities, credit union, awards and prizes, and transportation and housing.

Prime cost

Prime cost is the total of the following: cost of food sold, cost of beverage sold and the associated payroll costs and employee benefit expenses.

Direct operating expenses

Expenses directly involved in providing service to the customer, such as uniforms, laundry, linen, china, and cleaning and paper supplies are considered operating expenses. Also included are utensils, kitchen fuel, menus and drink lists, flowers and decorations, contract cleaning, auto or truck expense, parking, and licenses and permits.

Advertising and promotion

This group of expenses includes selling and promotion expenses, such as direct mail and entertainment costs in promotion of business (including gratis meals to customers). Also, the cost of advertising through newspapers, magazines or trade journals; outdoor signs and radio and television are included. Public relations and publicity (including fees and commissions to advertising or promotional agencies) and franchising fees and royalties are found in this category.

Utilities

This section is comprised of the cost of all fuel except that charged to direct operating expenses in the account "kitchen fuel." Water, ice and refrigeration supplies and the removal of waste are also included. The cost of oils, boiler compound, fuses, grease and other supplies plus any small tools used in the operation or maintenance of the mechanical and electrical equipment should also be charged to this account.

Administrative and general

This group of expenses is commonly considered "overhead," and includes items that are necessary to the operation of the business rather than those connected directly with the service and comfort of the customer. This account should be charged with the cost of all printed matter not devoted to advertising and promotion, such as accounting forms, account books, restaurant checks, office supplies, cash register and other checking supplies, letterheads, bills and envelopes. All postage, except amounts applicable to advertising should be charged here. The cost of telephone equipment rental, local and long distance calls and telegrams should be charged to this account with the exception of calls chargeable to marketing. Other items charged to this account are management fees, data processing costs, dues and subscriptions and insurance costs (other than those included as employee benefits or fire and extended coverage on the premises and contents). Commission on credit card charges, collection fees, cash shortages, professional dues and protective services are also considered A & G expenses.

Repairs and maintenance

The following items are repairs and maintenance expenses: painting and decorating; plastering; upholstering; mending curtains; and maintenance contracts on elevators, signs and office machinery. Repairs to dining room furniture, refrigeration, air conditioning, buildings, floors, plumbing and heating are charged to this category as well. Repairs to dishwashing and sanitation equipment, kitchen equipment and office equipment are also included here.

Occupation costs

These expenses, together with interest and depreciation charges, are the costs of readying the premises for operations. These are sometimes called "fixed charges" since they usually are determined by the financial setup of the restaurant and not by the trend of its business. Rent, taxes and property insurance are occupation costs.

•The definitions and examples have been taken from *Uniform System of Accounts for Restaurants*, 1983 revised edition.

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